# FOREST-WAVERLY TOWNSHIP FIRE DEPARTMENT CHEBOYGAN COUNTY, MICHIGAN

Financial Statements For the Year Ended March 31, 2006

#### Prepared By:

Richard E. Mahlmeister, C.P.A., P.C. 580 South Nicolet, P.O.Box 996 Mackinaw City, MI 49701 Michigan Department of Treasury 496 (02/06)

			Procedure 2 of 1966, as am			, as amended.				
Loca	l Unit	of Gov	vernment Type		Local Unit Nam-		me			
	ount	ty	☐City ☐	]Twp	∐Village	⊠Other	Forest-Wa	verly Township Fire De	partment	Cheboygan
Fisc	al Yea	r End			Opinion Date		•	Date Audit Report Submitte	ed to State	
March 31, 2006 September			r 20, 2006	5	September 25, 200	06				
We a	ffirm	that	•							
We a	re ce	ertifie	ed public acco	untants	licensed to p	ractice in M	lichigan.			
			rm the followi Letter (report					sed in the financial staten	nents, includ	ling the notes, or in the
	YES	9	Check each	applic	able box bel	ow. (See in	structions fo	r further detail.)		
1.	×				ent units/fund s to the finan				ancial statei	ments and/or disclosed in the
2.	×							unit's unreserved fund bal budget for expenditures.	ances/unres	stricted net assets
3.	X		The local un	it is in c	ompliance wi	th the Unifo	orm Chart of	Accounts issued by the De	epartment of	Treasury.
4.	×		The local un	it has a	dopted a bud	get for all re	equired funds	i.		
5.	×		A public hea	rina on	the budget w	as held in a	accordance w	rith State statute.		
6.	×		The local un	it has no	=	e Municipal	Finance Act	an order issued under the	e Emergeno	y Municipal Loan Act, or
7.	X		<del>-</del>					revenues that were collect	ted for anoth	ner taxing unit.
8.	_  X		The local un	it only h	olds deposits	/investmen	nts that comp	ly with statutory requireme	ents.	
9.	×					unauthorized expenditures that came to our attention as defined in the <i>Bulletin for</i> nment in Michigan, as revised (see Appendix H of Bulletin).				
10.	×		that have no	ot been p	previously co	mmunicated	d to the Loca	ement, which came to our I Audit and Finance Division t under separate cover.	attention du on (LAFD). I	ring the course of our audit f there is such activity that ha
11.	×		The local un	nit is free	e of repeated	comments	from previou	s years.		
12.	×		The audit op	oinion is	UNQUALIFIE	ED.				
13.	×				omplied with g principles (0		ir GASB 34 a	s modified by MCGAA Sta	atement #7 a	and other generally
14.	×		The board o	r counc	il approves al	l invoices p	orior to payme	ent as required by charter	or statute.	
15.	×		To our know	vledge, l	bank reconcili	ations that	were review	ed were performed timely.		
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The	The letter of Comments and Recommendations									
Oth	er (D	escrib	pe)							
			Accountant (Firm					Telephone Number		
			Mahlmeiste	r, CPA		_		231-436-5223	1	
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Richard E. Mahlmeister, CPA

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Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

#### INDEPENDENT AUDITOR'S REPORT

September 20, 2006

Members of the Board Forest-Waverly Township Fire Department Cheboygan County, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund of the Forest-Waverly Township Fire Department, Cheboygan County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Forest-Waverly Township Fire Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Forest-Waverly Township Fire Department's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the *Forest-Waverly Township Fire Department*, *Cheboygan County*, *Michigan*, as of March 31, 2006, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Forest-Waverly Township Fire Department has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of March 31, 2006.

The Forest-Waverly Township Fire Department has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required, to be a part of the basic financial statements.

The budgetary comparison information on page 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Richard E. Mahlmeister, C.P.A.

### **BASIC FINANCIAL STATEMENTS**

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

#### FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT STATEMENT OF NET ASSETS MARCH 31, 2006

ASSETS	GOVERNMENTAL ACTIVITIES
AGGETG	ACIIVIII
CURRENT ASSETS:	
Cash and cash equivalents	\$21,346
Accounts receivable:	1,144
Due from other governmental units	1,177
TOTAL CURRENT ASSETS	22,490
CAPITAL ASSETS:	
Capital assets	328,333
Accumulated depreciation	(145,291)
TOTAL CAPITAL ASSETS	183,042
TOTAL ASSETS	\$205,532
LIABILITIES AND NET ASSETS	
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	\$1,675
Accrued payroll taxes	84
Accrued interest	165
TOTAL CURRENT LIABILITIES	1,924
LONG-TERM LIABILITIES (Related Party):	
Due within one year	8,603
Due in more than one year	33,172
TOTAL LONG-TERM LIABILITIES	41,775
TOTAL LIABILITIES	43,699
NET ASSETS	
Invested in capital assets, net of related debt	141,267
Unrestricted	20,566
TOTAL NET ASSETS	161,833
TOTAL LIABILITIES AND NET ASSETS	\$205,532

#### FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2006

			Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions			
Primary government						
Governmental activities						
Public safety	\$53,297	\$1,555	\$ -			
Interest on long-term debt	1,308	-	<u> </u>			
Total governmental activities	54,605	1,555	-			
	Ge	eneral Revenues				
	Contributions from local units:					
	Forest Township					
	Waverly Township Other townships Unrestricted interest income					
	C	Other				
	•	Juner				

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

#### Net (Expense) Revenue and Changes

	in Net Assets	
Capital Grants and Contributions	TOTAL	
\$7,500	(\$44,242)	
	(1,308)	
7,500	(45,550)	
	43,368	
	28,200	
	4,575	
	566	
	56	
	76,765	
	31,215	
	130,618	
	\$161,833	

### FUND FINANCIAL STATEMENTS

#### FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT BALANCE SHEET - GOVERNMENTAL FUND MARCH 31, 2006

ASSETS	GOVERNMENTAL ACTIVITIES
Cash and cash equivalents	\$21,346
Due from other governmental units	1,144
TOTAL ASSETS	\$22,490
LIABILITIES AND FUND EQUITY	
LIABILITIES:	
Accounts payable	\$1,675
Accrued payroll taxes	84
TOTAL LIABILITIES	1,759
FUND EQUITY	
Fund balance:	
Unreserved. undesignated	20,731
TOTAL FUND EQUITY	20,731
TOTAL LIABILITIES	
AND FUND EQUITY	\$22,490

#### FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT BALANCE SHEET - GOVERNMENTAL FUND MARCH 31, 2006

Reconciliation of fund balance on the balance sheet for the governmental activity to the statement of net assets \$20,731 FUND BALANCE - TOTAL GOVERNMENTAL FUND Amounts reported for governmental activities in the statement of net assets are different because: Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 328,333 Add: capital assets Subtract: accumulated depreciation (145,291)Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds. (41,775)Subtract: loans payable (165)Subtract: accrued interest on long-term liabilities

\$161,833

**NET ASSETS OF GOVERNMENTAL ACTIVITIES** 

The accompanying notes are an integral part of these financial statements.

# FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND FOR THE YEAR ENDED MARCH 31, 2006

REVENUES	
Contributions from local units:	
Forest Township	\$43,368
Waverly Township	28,200
Other townships	4,575
Charges for service	1,555
Interest	566
Contributions and donations	7,500
Other	56
TOTAL REVENUES	85,820
EXPENDITURES	
Current:	
Public safety:	
Salaries	2,110
Fringe benefits	161
Contracted services	3,280
Administrative expenses	1,309
Fire department expenses	8,968
Communications	784
Utilities	3,675
Insurance	11,504
Other	535
Capital Outlay	60,278
Debt service:	
principal	25,680
interest	1,349
TOTAL EXPENDITURES	119,633
REVENUES OVER (UNDER) EXPENDITURES	(33,813)
OTHER FINANCING SOURCES	
Loan Proceeds	42,632
NET CHANGE IN FUND BALANCE	8,819
FUND BALANCE, BEGINNING OF YEAR	11,912
FUND BALANCE, END OF YEAR	\$20,731

The accompanying notes are an integral part of these financial statements.

# FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND FOR THE YEAR ENDED MARCH 31, 2006

Reconciliation of statement of revenues, expenditures and changes in fund balance of the governmental fund to the statement of activities

Amounts reported for governmental activities in the statement of activities are different because:  Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities.  Add: capital outlay capitalized during the current year 60,278 Subtract: depreciation expense (20,971)  Loan proceeds provide current financial resources to governmental funds however, issuing deht increases long-term liabilities in the statement of net assets.  Repayment of loan principal is an expenditure in the governmental fund, however, it reduces long-term liabilities in the statement of net assets.  Add: principal payments on long-term liabilities. 25,680 Subtract: loan proceeds (42,632)  Some expenses reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan 206 Subtract: current year accrued interest on loan (165)	CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$8,819
are allocated over their useful lives as annual depreciation expense in the statement of activities.  Add: capital outlay capitalized during the current year 60,278 Subtract: depreciation expense (20,971)  Loan proceeds provide current financial resources to governmental funds however, issuing debt increases long-term liabilities in the statement of net assets.  Repayment of loan principal is an expenditure in the governmental fund, however, it reduces long-term liabilities in the statement of net assets.  Add: principal payments on long-term liabilities. 25,680 Subtract: loan proceeds (42,632)  Some expenses reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan 206		
Subtract: depreciation expense (20,971)  Loan proceeds provide current financial resources to governmental funds however, issuing debt increases long-term liabilities in the statement of net assets.  Repayment of loan principal is an expenditure in the governmental fund, however, it reduces long-term liabilities in the statement of net assets.  Add: principal payments on long-term liabilities. 25,680 Subtract: loan proceeds (42,632)  Some expenses reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan 206	are allocated over their useful lives as annual depreciation expense in the statement	
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however, issuing debt increases long-term liabilities in the statement of net assets.  Repayment of loan principal is an expenditure in the governmental fund, however, it reduces long-term liabilities in the statement of net assets.  Add: principal payments on long-term liabilities.  Subtract: loan proceeds  Some expenses reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan  206		(20,971)
Repayment of loan principal is an expenditure in the governmental fund, however, it reduces long-term liabilities in the statement of net assets.  Add: principal payments on long-term liabilities.  Subtract: loan proceeds  Some expenses reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan  206	Loan proceeds provide current financial resources to governmental funds	
however, it reduces long-term liabilities in the statement of net assets.  Add: principal payments on long-term liabilities.  Subtract: loan proceeds  Some expenses reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan  206	however, issuing deht increases long-term liabilities in the statement of net assets.	
Add: principal payments on long-term liabilities.  Subtract: loan proceeds  Some expenses reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan  25,680 (42,632)	Repayment of loan principal is an expenditure in the governmental fund,	
Subtract: loan proceeds  Some expenses reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan  (42,632)	however, it reduces long-term liabilities in the statement of net assets.	
Some expenses reported in the statement of activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan 206	Add: principal payments on long-term liabilities.	25,680
financial resources and therefore are not reported as expenditures in governmental funds.  Add: prior year accrued interest on loan 206	Subtract: loan proceeds	(42,632)
Add: prior year accrued interest on loan 206	Some expenses reported in the statement of activities do no require the use of current	
Add. prior year accrucion to an	financial resources and therefore are not reported as expenditures in governmental funds.	
Subtract: current year accrued interest on loan (165)	Add: prior year accrued interest on loan	206
	Subtract: current year accrued interest on loan	(165)

\$31,215

The accompanying notes are an integral part of these financial statements.

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

#### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Forest-Waverly Fire Department (the Fire Department) is a joint venture organized to provide fire service, pursuant to Michigan P.A. 7 and 8 of 1967 (Interlocal Agreements), serving the Townships of Forest, Waverly and Walker (under contract) in Cheboygan County, Michigan. The Fire Department operates under an appointed board comprised of a Chairman, Vice-Chairman, Secretary and two board members.

The accounting policies of the Forest-Waverly Township Fire Department, Cheboygan County, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

The Forest-Waverly Township Fire Department adopted the governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements – Management's Discussion and Analysis - for State and Local Governments, and Statement No. 38, Certain Financial Statement Note Disclosures and applied those standards as of April 1, 2004. Under the provisions of GASB Statements Nos. 34 and 38, the focus of the Fire Department's financial statements has shifted from a fund focus to a government-wide focus. Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989.

#### THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the Fire Department and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The Fire Department has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

#### **ECONOMIC DEPENDENCY**

The Fire Department is economically dependent on annual contributions from the participating local units.

#### NOTES TO FINANCIAL STATEMENTS

# NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

#### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on the Fire Department as a whole. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. The Fire Department's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use. Or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

#### **Fund Financial Statements**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds. The Fire Department reports only one governmental fund.

## MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Intergovernmental revenues are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

#### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Contributions from local governments, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be available when cash is received.

#### FUND TYPES AND MAJOR FUNDS

#### Governmental Funds

The Fire Department reports the following major governmental fund:

**General Fund** - The General Fund is the general operating fund of the Fire Department. It is used to account for all financial resources. Financing is provided primarily from contributions of the participating entities.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits and cash in saving accounts.

#### **ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

There is no accumulated vacation, sick leave or post-employment benefits to be recognized.

#### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are generally defined by the government as assets with an initial individual cost of \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements 15-40 years Equipment 5-20 years Vehicles 5-15 years

#### LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

#### **FUND EQUITY**

Reserved fund balances for governmental funds indicate that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that portion of fund equity for which the Fire Department has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

#### STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund.

The Fire Department follows the following procedures in establishing the budgetary data reflected in the financial statements:

(Continued)

#### NOTES TO FINANCIAL STATEMENTS

# NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

- 1. Prior to the beginning of the fiscal year, the Secretary submits to the Fire Department Board a proposed operating budget for the fiscal year commencing on April 1.
- 2. The separate Forest and Waverly Township Boards each individually review and approve the budget as proposed by the Fire Department Board.
- 3. Public hearings are conducted to obtain taxpayer comments.
- 4. Prior to March 31, the budget is legally enacted through passage of a resolution.
- 5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Fire Department Board.

The Fire Department's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

#### NOTE 2: CASH AND CASH EQUIVALENTS

The caption on the statement of net assets relating to cash and cash equivalents of \$21,346 represent deposits in one financial institution located in Michigan. The total deposits do not exceed \$100,000 and therefore, are covered by the Federal Deposit Insurance Corporation (FDIC). All accounts are in the name of the Fire Department. They are recorded in the Fire Department records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

#### Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Fire Department to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Fire Department's deposits and investment policy are in accordance with statutory authority.

#### NOTES TO FINANCIAL STATEMENTS

#### NOTE 3: CAPITAL ASSETS

Capital asset activity for the current year were as follows:

	Balance			Balance
	April 1, 2005	Additions	Deletions	March 31, 2006
Being depreciated:				-
Building and Improvements	\$33,338	\$52,851	\$	\$86,189
Equipment	65,169	7,427	·	72,596
Vehicles	169,548	<u> </u>		169,548
Subtotal	268,055	60,278		328,333
Less accumulated depreciation	(124,320)	(20,971)		(145,291)
Total	\$143,735	\$39,307	<b>S</b>	\$183,042

Depreciation in the amount of \$20,971 was charged to the public safety function for the year ended March 31, 2006.

#### NOTE 4: CAPITAL LEASE AND LONG-TERM DEBT / RELATED PARTY

#### Capital Lease

The Fire Department had a vehicle lease with Emergency One, Inc. which met the criteria for capitalization under generally accepted accounting principles. The present value of the minimum lease payments of \$137,935 was capitalized at the inception of the lease using a 6.39% interest rate. The final lease payment was made during the year ended March 31, 2006. The vehicle leased is included in capital assets at \$137,935, less accumulated depreciation of \$75,101.

#### Long-term Debt / Related Party

Forest Township provided funds to the Fire Department in the form of a loan for the purpose of refurbishing a vehicle in the amount of \$15,000, payable in quarterly installments of \$1,000, plus interest at 2%, through April, 2006.

Additionally, Forest Township provided funds to the Fire Department in the form of a loan for the purpose of building an addition to the fire hall in the amount of \$42,632, payable in quarterly installments of \$1,800, plus interest at 2%, through July, 2013.

(Continued)

#### NOTES TO FINANCIAL STATEMENTS

## NOTE 4: CAPITAL LEASE AND LONG-TERM DEBT, RELATED PARTY (CONTINUED)

A summary of long-term obligations related to the capital lease agreement and related party debt for the year ended March 31, 2006, as follows:

	Balance			Balance	
	April 1, 2005	Additions	Deletions	March 31, 2006	Due in One Year
Capital lease-Emergency One, Inc.	\$16,823	\$ -	\$16,823	\$ -	\$ -
Forest Township, fire vehicle-related party	8,000	-	4,000	4,000	4,000
Forest Township, building addition-related party		42,632	4,857	3 <u>7,775</u>	4,603
Total	\$24,823	\$42,632	\$25,680	\$41,775	\$8,603

The annual requirements for five years ending March 31, 2006 and thereafter are as follows:

Year Ended March 31,	Principal	Interest
2006	\$8.603	\$817
2007	4,706	694
2008	4,811	589
2009	4,918	482
2010	5,028	372
2011-2015	13,709	436
Total	\$41 <u>,775</u>	\$3,390

Interest expense for the year ended March 31, 2006 was \$1,308.

#### NOTE 5: LEASE

The Fire Department leases the land for the fire hall from Forest Township. The term of the lease is 50 years; through December 30, 2037. Annual cost of the lease is \$1.

#### NOTE 6: RISK MANAGEMENT

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, suits, complaints and employee injuries. In the opinion of management, all such potential matters are adequately covered by insurance and would not have a significant effect on the financial position or results of operations of the Fire Department. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

#### FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT BUDGETARY COMPARISON SCHEDULE -GENERAL FUND FOR THE YEAR ENDED MARCH 31, 2006

*	GINAL DGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES				· · · · · · · · · · · · · · · · · · ·
Contributions from local units:				
Forest Township	\$26,000	\$28,200	\$43,368	\$15,168
Waverly Township	26,000	26,000	28,200	2,200
Other townships	4,575	4,575	4,575	-
Charges for service	1,000	1,000	1,555	555
Interest	100	100	566	466
Contributions and donations	10	1,010	7,500	6,490
Other	115	115	56	(59)
TOTAL REVENUES	57,800	61,000	85,820	24,820
EXPENDITURES				
Current:				
Public safety:				
Salaries	2,520	2,520	2,110	410
Fringe benefits	250	250	161	89
Contracted services	8,120	6,495	3,280	3,215
Administrative expenses	500	1,125	1,309	(184)
Fire department expenses	7,700	6,500	8,968	(2,468)
Communications	1,500	1,500	784	716
Utilities	4,250	4,250	3,675	575
Insurance	11,500	11,500	11,504	(4)
Other	252	252	535	(283)
Capital Outlay	_	60,000	60,278	(278)
Debt service:		,	,	, ,
principal	21,208	25,680	25,680	
interest	21,200	928	1,349	(421)
	· <del>-</del> ··-		····	
TOTAL EXPENDITURES	57,800	121,000	119,633	1,367
REVENUES OVER (UNDER) EXPENDITURES		(60,000)	(33,813)	26,187
OTHER FINANCING SOURCES				
Loan Proceeds	60,000	60,000	42,632	(17,368)
NET CHANGE IN FUND BALANCE	-	-	8,819	8,819
FUND BALANCE, BEGINNING OF YEAR	11,912	11,912	11,912	•
FUND BALANCE, END OF YEAR	\$11,912	\$11,912	\$20,731	\$8,819



Member:

American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

September 20, 2006

Members of the Board Forest-Waverly Township Fire Department Cheboygan County, Michigan

In planning and performing my audit of the financial statements of the *Forest-Waverly Township Fire Department*, *Cheboygan County*, *Michigan*, for the year ended March 31, 2006, I considered the internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and recommendations regarding those matters. This letter does not affect my report dated September 20, 2006 on the financial statements of the *Forest-Waverly Township Fire Department*.

Thank you for the opportunity to serve the *Forest-Waverly Township Fire Department*. I appreciate the assistance I received from both Dawn and Dennis during my audit. Best wishes in the next year.

I Muhameet CPA

Sincerely,

Richard E. Mahlmeister, C.P.A.

Forest-Waverly Township Fire Department Comments & Recommendations September 20, 2006 Page 2 (two)

#### **Reportable Condition**

Reportable conditions involve matters coming to my intention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgement, could adversely affect Forest-Waverly Township Fire Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements and is not necessarily considered to be a material weakness

The reportable condition that exists is that there is a lack of segregation of duties in both the receipting and disbursement function of Forest-Waverly Township Fire Department. This condition is generally inherent in organizations the size of Forest-Waverly Township Fire Department, where corrective action is not practical.

#### **Capital Assets**

I recommend that the Board review the policy as to which assets should be recorded as a capital asset. The *Government Officer's Finance Association* (GFOA) recommends that assets that have a useful life of at least one-year and a cost of \$5,000 be included as a capital asset. I further would recommend that the Board make this threshold, at least, in the range \$1,000 to \$2,000. Adopting a capitalization policy with these minimums would exclude assets of minimal value and would make the record keeping less cumbersome and would create more useful capital asset information.